

SHARI SCHAPMIRE
CHAIR
TREASURER TAX COLLECTOR

LLOYD WEER
VICE-CHAIR
ELECTED GENERAL MEMBER

TIM KNUDSEN
SECRETARY
ELECTED RETIRED MEMBER

SUPERVISOR JOHN McCOWEN
B.O.S. APPOINTEE

JOHN SAKOWICZ
B.O.S. APPOINTEE

TED STEPHENS
B.O.S. APPOINTEE

BOB MIRATA
B.O.S. APPOINTEE

RANDY GOODMAN
ELECTED GENERAL
MEMBER

CRAIG WALKER
ELECTED SAFETY
MEMBER

RICHARD SHOEMAKER
ELECTED RETIRED
ALTERNATE MEMBER



RICH WHITE
RETIREMENT
ADMINISTRATOR

JEFF BERK
LEGAL COUNSEL

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION BOARD MEETING AGENDA FEBRUARY 20, 2013 - 8:30 A.M.

ROLL CALL (8:30 a.m.)

PUBLIC COMMENT (Estimated Time 5 min.)

Members of the public are welcome to address the board on subjects within the jurisdiction of the Board of Retirement regarding items both on and off the agenda. The board is prohibited by law from taking action on matters not on the agenda, but may ask questions to clarify the speaker's comment and/or briefly answer questions. The board limits testimony on matters not on the agenda to 5 minutes per person and not more than 10 minutes for a particular subject at the discretion of the Chair of the Board. To best facilitate public expression please complete the speaker form available at the entrance to the boardroom and present to the Clerk to the Board. If you wish to submit written comments please provide 13 copies to the Board Clerk prior to the start of the meeting. Public speakers are reminded to announce their names before they address the board.

1) APPROVAL OF THE MINUTES OF THE BOARD MEETING HELD JANUARY 16, 2013 (Estimated Time 5 min.)

2) INVESTMENT REPORT (Estimated Time 45 min.)

- Quarterly Performance Report, Callan Associates

3) DISCUSSION AND POSSIBLE ACTION REGARDING THE JUNE 30, 2012 INDEPENDENT AUDIT REPORT, GALLINA LLP (Estimated Time 45 min.)

BREAK (Estimated Time 10 min.)

4) DISCUSSION AND POSSIBLE ACTION REGARDING THE JUNE 30, 2012 ACTUARIAL VALUATION, THE SEGAL COMPANY (Estimated Time 30 min.)

5) DISCUSSION AND POSSIBLE ACTION REGARDING THE APRIL 1, 2013 COST OF LIVING ADJUSTMENT (COLA), THE SEGAL COMPANY (Estimated Time 10 min.)

6) MONTHLY FINANCIAL REPORT (Estimated Time 15 min.)

- Financial Statements

◆RETIREMENT ASSOCIATION CONFERENCE ROOM: 625-B KINGS COURT, UKIAH, CA 95482◆

◆PHONE 707-463-4328 FAX 707-467-6472◆ WWW.CO.MENDOCINO.CA.US/RETIREMENT◆

◆RETIREMENT BOARD MEETING AGENDA◆

◆FEBRUARY 20, 2013 - 8:30 A.M.◆

- Discussion and Possible Action regarding MCERA Staff Training Plan, Budget Item
- CALAPRS 2013 Leadership Academy

7) DISCUSSION AND POSSIBLE ACTION REGARDING STRATEGIC PLAN (Estimated Time 5 min.)

- Review of Goals and Objectives

8) AUDIT AND BUDGET COMMITTEE REPORT (Estimated Time 20 min.)

- Discussion and Direction to Staff regarding Preparation of Reports
- Discussion and Possible Action regarding Audit and Budget Committee Charter
- Discussion and Possible Action regarding Budget Adoption Policy

9) BENEFITS AND OPERATIONS (Estimated Time 5 min.)

- Membership as of January 31, 2013:
Active Members = 1015 Retired Members= 1253 Retired Deceased = 2
New Members = 15 Terminations = 12 Withdrawn Not Vested = 5 \$37,655.90
Withdrawn Vested= 2 \$25,040.52
- Membership information staff report

10) RETIREMENT ADMINISTRATOR'S REPORT (Estimated Time 15 min.)

- Legislative Update
- PEPRA Update
- Tax Forms
- Public Records Request
- Scheduled Education Attendance
- VCP Update

LUNCH RECESS (Approximately 12:00 noon)

RECONVENE (Approximately 1:00 p.m.)

11) CLOSED SESSION (Estimated Time 90 min.)

- Pending disability applications update
- Public Employee Performance Evaluation - Retirement Administrator - Pursuant to Government Code Section 54957
- Potential Litigation pursuant to Government Code Section 54956.9(a) - 1 case - Martin Bradley vs Mendocino County Employees' Retirement Association

REPORT OUT FROM CLOSED SESSION (Estimated Time 5 min.)

12) GENERAL BOARD MEMBER DISCUSSION (Estimated Time 5 min.)

ADJOURNMENT (Approximately 2:40 p.m.)

◆RETIREMENT ASSOCIATION CONFERENCE ROOM: 625-B KINGS COURT, UKIAH, CA 95482◆

◆PHONE 707-463-4328 FAX 707-467-6472◆ WWW.CO.MENDOCINO.CA.US/RETIREMENT◆

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆
BOARD OF RETIREMENT MEETING MINUTES
◆ JANUARY 16, 2013 AT 8:30 A.M. ◆

CALL TO ORDER

Shari Shapmire, Board Chair, called the meeting to order at 8:30 A.M.

Rich White, Retirement Administrator, informed the Board that we will be using the revised Board meeting schedule.

ROLL CALL

Roll call was conducted with the following members present: Shari Schapmire, Lloyd Weer, Ted Stephens, Tim Knudsen, Supervisor John McCowen, Randy Goodman, Richard Shoemaker, John Sakowicz, Bob Mirata, and Craig Walker. Also present: Rich White, Retirement Administrator, Jeff Berk, Legal Counsel, and Judy Zeller, Board Clerk.

PUBLIC COMMENT: None

1) APPROVAL OF THE MINUTES OF THE BOARD MEETING HELD JANUARY 3, 2013

Upon motion by Mr. Mirata, seconded by Mr. Sakowicz; **IT IS ORDERED** that the minutes of the JANUARY 3, 2013 Board meeting are approved unanimously.

2) CLOSED SESSION (8:35 A.M.)

- Pending disability applications update
- Tim Goss, SCD Application dated 5/10/12
- Michael Tobin, SCD Application dated 12/3/12
- Public Employee Performance Evaluation - Retirement Administrator - Pursuant to Government Code Section 54957

Mr. Walker left the meeting at 9:51 A.M. and will not return.

Chair Schapmire left the meeting at 10:20 A.M. and will return for the afternoon session. Vice Chair Weer assumed the duties of the Chair and the meeting continued.

REPORT OUT FROM CLOSED SESSION (10:25 A.M.)

Board Direction: Direction was given to staff on the Tim Goss and Michael Tobin applications for Service Connected Disability. The Retirement Administrator's evaluation was approved by the Board.

Board Action: There was no reportable Board Action.

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆
BOARD OF RETIREMENT MEETING MINUTES
◆ JANUARY 16, 2013 AT 8:30 A.M. ◆

BREAK

**3) DISCUSSION AND POSSIBLE ACTION REGARDING MEMBER APPEAL OF
RETIREMENT OPTION SELECTION DENIAL**

Presenter/s: Rich White and Katy Richardson, Senior Retirement Specialist, referenced information previously distributed to the Board. Member Loretta Kosmac addressed the Board and distributed additional information to the Board which she referenced as well as the previously distributed materials. The Board asked questions of staff and member Kosmac regarding this benefit option and the calculations made by staff.

Board Direction: There was no reportable Board Direction.

Board Action: Motion was made by Mr. Sakowicz to affirm that member Kosmac is not eligible for the "Accelerated Option", Government Code Section 31810 (below), since the social security personal earnings statement submitted by Ms. Kosmac stated that her future earnings benefit amount is \$0.00.

**GC§31810. Retirement before eligibility under federal system; modification of allowance;
election; approval**

A member who retires for service prior to the age of becoming eligible for retirement payments under the federal system and who at the time of retiring is fully insured under the federal system, may, with the approval of the Retirement Board, elect to have his retirement allowance increased prior to such eligible age and reduced after such age by amounts which have equivalent actuarial values. This modification is for the purpose of coordinating a member's retirement allowance with benefits receivable from the federal system.

(Amended by Stats. 1963, Ch. 642, Sec. 1)

Mr. Goodman seconded the motion and it was approved by the following vote: Ayes 7 Noes 0
Abstain 0 Absent 2. (Motion approved)

4) DISCUSSION AND POSSIBLE ACTION REGARDING THE BOARD STRATEGIC PLAN

Presenter/s: Rich White referenced information previously distributed to the Board and answered the Board's questions regarding the strategic plan document. Supervisor McCowen suggested changes that are incorporated in Board Direction.

Board Direction: Staff will amend page 7 of the strategic plan to read, Staff responsibility with Board approval including budget and timeline.

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆JANUARY 16, 2013 AT 8:30 A.M.◆

Board Action: Motion was made by Mr. Mirata to approve the Board Strategic Plan as amended. Mr. Knudsen seconded the motion and it was approved by the following vote: Ayes 7 Noes 0 Abstain 0 Absent 2. (Motion approved)

5) BENEFITS AND OPERATIONS

- **Member retirements and withdrawals of contributions by inactive members**
- **Selection of Retirement Option at time of application**

Presenter/s: Judy Zeller, Board Clerk, reported to the Board on the number of member retirements and withdrawals. The Board asked questions about the report and gave direction to staff for future reports.

Rich White and Katy Richardson, Senior Retirement Specialist, referenced information previously distributed to the Board regarding the selection of retirement option at the time the retirement application is signed. This included a Retirement Application Supporting Documents form and a Benefit Payment Options form. The Board discussed the current procedure, procedures used in other 1937 Act retirement systems, and the proposed procedure, which is consistent with other systems.

Board Direction: Staff will amend the Retirement Application Supporting Documents form and the Benefit Payment Options form. A report including employee totals over the last 5 years will be presented at the next Board meeting and staff will report number of active/inactive members each month in order to track increase/decrease in membership.

Board Action: Motion was made by Supervisor McCowen to approve the Selection of Retirement Option at time of application and the amended supporting documents. Mr. Mirata seconded the motion and it was approved by the following vote: Ayes 7 Noes 0 Abstain 0 Absent 2. (Motion approved)

6) MONTHLY INVESTMENT REPORT

- **Investment Report**
- **Update Domestic Equity Asset Allocation**

Presenter/s: Rich White referenced information previously distributed to the Board.

There was no reportable Board Direction or Board Action.

LUNCH RECESS (12:05 P.M.)

RECONVENE (1:08 P.M.)

◆ MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ◆
BOARD OF RETIREMENT MEETING MINUTES
◆ JANUARY 16, 2013 AT 8:30 A.M. ◆

Chair Schapmire reconvened the meeting at 1:08 P.M.

7) RETIREMENT ADMINISTRATOR'S REPORT

- **Certificate of Achievement for Excellence in Financial Reporting**
- **Form 700 Statement of Economic Interests**
- **Operations and Benefits Staff Update**
- **Training and Education**

The Certificate of Achievement for Excellence in Financial Reporting awarded by the Governmental Finance Officers Association (GFOA) for the fiscal year ending June 30, 2011 was presented to the Board by Chair Schapmire.

There was no reportable Board Direction or Board Action.

8) MONTHLY FINANCIAL REPORT

- **Budget Review FY 2012-2013**
- **November 2012 Preliminary Statement**

Presenter/s: Rich White referenced information previously distributed to the Board including the monthly statements. He noted changes made in the reports as directed by the Board at the last meeting, including rounding the numbers to the highest whole dollar amount. The six-month budget report was presented and it was noted that the report format was changed from the previous fiscal year in order to provide additional report organization and detailed information on monthly charges for certain categories where there are multiple sources within the line item, such as legal expenses which include multiple legal firms.

The Board asked many questions about the reports. Mr. Sakowicz liked the revised format. Mr. Stephens felt the reports provided useful information and he wanted the imputed Kings Court rent discussed with Gallina LLP. Mr. Knudsen asked about the Cornerstone Fees budget line item. Mr. White mentioned that Cornerstone cannot bill fees directly and that they deduct shares to pay our fees. It was felt that Cornerstone may no longer need to remain as a line in the budget. Mr. Weer referenced the staff training line item and explained the County budget reporting process to the Board.

Board Direction: Staff will include additional information regarding asset 625 Kings Court and Buck Settlement funds on monthly financial reporting. Accounting for the imputed rent will be discussed with our external auditor, Gallina LLP, and will be reviewed by the Board next meeting. The Staff Education Budget will be brought back for discussion and possible action at our next meeting.

◆MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION◆
BOARD OF RETIREMENT MEETING MINUTES
◆JANUARY 16, 2013 AT 8:30 A.M.◆

9) COMMUNICATIONS

- Letters to the Editor
- Wall Street Journal Articles

Mr. Stephens stated that he did not submit a letter to the editor of the Anderson Valley Advertiser. He did write a letter and had provided copies to Farm Bureau Board members.

There was no reportable Board Direction or Board Action.

10) GENERAL BOARD MEMBER DISCUSSION

Board Direction: Staff and legal counsel will research the government code regarding an alternate safety/probation member seat on the Board.

There was no reportable Board Action.

ADJOURNMENT (2:45 P.M.)

Richard A. White, Jr.
Retirement Administrator



Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *raw*
Subject: Monthly Investment Report

A. Quarterly Investment Performance Report

The Board of Retirement has the responsibility for the administration of MCERA for the benefit of plan participants. The Board adopted the Investment Policy Statement which provides a framework for the management of the assets of MCERA. As described in the Statement, "the Board shall review MCERA's investments quarterly, or as needed, to ensure that policy guidelines continue to be met. The Board shall monitor investment returns on both an absolute basis and relative to appropriate benchmarks and peer group comparisons."

In compliance with the Statement, the MCERA investment consultant will present the 4th Quarter Investment Performance Report to the Board. The report will be presented by Greg Ungerman and Greg DeForrest of Callan Associates Inc.

The material is provided to the Board of Retirement as a separate report.

raw
Attachment

Richard A. White, Jr.
Retirement Administrator



Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *RAW*
Subject: External Audit Report

Audit Report. Each year MCERA conducts an audit of its financial condition as required by Government Code Section 31593. Per the code section, the Board may retain the services of a Certified Public Accountant (CPA) or use the County Auditor-Controller. The Association retained Gallina, LLP to conduct the annual audit of our financial statements and supplementary information for the year ended June 30, 2012. The draft audit, prepared by Daniel Matzinger and Crystal Ekanayake, is included in your Board materials for your review, discussion and approval at the Board meeting. The audit report was prepared with the assistance of The Segal Company and Hansen Bridgett.

The draft audit report was reviewed and approved (with changes) by the Audit and Budget Committee at their January 28, 2013 meeting.

The approved audit report will be incorporated into the Comprehensive Annual Financial Report (CAFR).

Recommended Motion/Action:

1. Accept the independent audit prepared by Gallina, LLP.
2. Transmit a copy of the audit to the Board of Supervisors per GC Section 5193, the Auditor-Controller, and State Controller's Office.

Alternatives:

None that provide for compliance with GC Section 5193.

Daniel Matzinger and Crystal Ekanayake, Gallina LLP will be happy to address any questions related to the audit.

RAW
Attachment

§31593. Audit and report

The retirement board shall conduct an audit of the retirement system at least once every 12 months and report upon its financial condition. The retirement board may retain the services of a certified public accountant to perform the annual audit. That audit shall be performed in accordance with generally accepted auditing standards. The cost of the audit shall be considered a cost of the administration of the retirement system. The audit report shall address the financial condition of the retirement system, internal accounting controls, and compliance with applicable laws and regulations. A copy of the audit report shall be filed with the board of supervisors.

Nothing in this section shall preclude the retirement board from selecting the county auditor to perform the annual audit, and if so done, the cost of that audit shall be considered a cost of the administration of the retirement system.

At the request of the county board of supervisors, the county auditor may audit the accounts of the retirement system. The expense of that audit shall not be a cost chargeable by the county to the retirement system.

(Added by Stats. 1947, Ch. 424, Sec. 1)

(Repealed and added by Stats. 1998, Ch. 109 (A.B. 1766), Sec. 5 and 6)

**Mendocino County Employees'
Retirement Association
(A Component Unit of the
County of Mendocino)**

**Financial Statements
and Supplementary Information
for the year ended June 30, 2012**

DRAFT
1/29/2013

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Financial Statements and Supplementary Information
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**Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Board of Retirement
June 30, 2012**

County Treasurer

Shari Schapmire, Vice Chairperson

Appointed by the Mendocino County Board of Supervisors

Bob Mirata, Chairperson

John Sakowicz, Trustee

Kendall Smith, Trustee

Ted Stephens, Trustee

Elected Members

Timothy J. Knudsen, Secretary

Randy Goodman, Trustee

Lloyd Weer, Trustee

Craig Walker, Trustee

Richard Shoemaker, Alternate Trustee

Administration

Rich White, Retirement Administrator



GALLINA LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Retirement
Mendocino County Employees' Retirement Association
Ukiah, California

We have audited the accompanying statement of net assets available for benefits of Mendocino County Employees' Retirement Association (MCERA), a component unit of the County of Mendocino, as of June 30, 2012, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of MCERA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of MCERA as of June 30, 2012, and the changes in its financial status for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 4 through 8, and other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rancho Cordova, California
January 29, 2013

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited)
June 30, 2012

The following section provides an overview and analysis of the Mendocino County Employees' Retirement Association (MCERA) financial activities for the year ended June 30, 2012. We encourage readers to take into account the information presented here in conjunction with additional information we have furnished in the financial statements.

Mendocino County Employees' Retirement Association (MCERA)

MCERA provides service retirement, disability, death and survivor benefits and is administered in accordance with the County Retirement Act of 1937 (Government Code Section 31450, et seq.) Pursuant to certain provisions of the County Retirement Act, MCERA is a multi-agency public employees' retirement system, established by the County of Mendocino on January 1, 1948, and is an independent district within the County of Mendocino, with a separate operating budget and professional staff.

The California Constitution gives the Board of Retirement (Board) plenary authority over the administration of the system, which includes administering plan benefits and managing the assets. The Board and MCERA staff members are committed to act for the exclusive benefit of the plan and its participants, manage the assets of the plan prudently and administer benefits with impartiality. To fulfill this mandate, MCERA employs a skilled professional staff and independent consultants that operate under a system of governance, operational and fiduciary policies and procedures.

Participating agencies in MCERA include the County of Mendocino, the Mendocino County Courts and the Russian River Cemetery District.

Financial Highlights

Net assets available for benefits decreased to \$342.7 million. This amount reflects a decrease of 3.46% in net assets during Fiscal Year 2011-12. Additions to plan assets for the fiscal year were \$12.6 million. This was comprised of \$11.8 million of employer contributions, \$4.8 million of member contributions and a net investment loss of \$4.0 million. Expenses (deductions in plan assets) for the year were \$24.9 million which included \$24.2 million in benefit payments to retirees and beneficiaries and \$0.7 million in administrative expenses.

Budget

The Board approves MCERA's annual budget. The CERL limits MCERA's annual administrative expenses, excluding the costs of administration for computer software and hardware and computer technology consulting services (IT costs), to twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability or \$2 Million, whichever is greater. Previously, the limit was eighteen hundredths of one percent (0.18%) of MCERA's total assets. MCERA's administrative expense of \$698,463, excluding IT costs of \$210,118, was 34.92% of the \$2 million statutory cap.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited), continued
June 30, 2012

Overview of the Financial Statements

Managements' Discussion and Analysis serves as an introduction and overview of the MCERA Basic Financial Statements. The Basic Financial Statements and required disclosures are prepared in accordance with accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB). MCERA's Basic Financial Statements are comprised of the following:

Statement of Net Assets Available for Benefits

The Statement of Net Assets Available for Benefits is a snapshot of account balances at year-end. It presents major categories of assets and liabilities at fiscal year end. The difference between assets and liabilities, "Net Assets Available for Benefits," represents funds available to pay benefits. Increases and decreases in "Net Assets Available for Benefits," when analyzed over time, may serve as an indicator of whether MCERA's financial position is improving or deteriorating.

Statement of Changes in Net Assets Available for Benefits

The Statement of Changes in Net Assets Available for Benefits provides information on the financial activities that increased and decreased Plan Net Assets. This statement covers the activity over a one-year period of time.

Notes to the Financial Statements

The Notes to the Financial Statements are an integral part of the basic financial statements and provide background and detailed information regarding MCERA's policies, programs and activities.

Required Supplemental Information

The Required Supplemental Information contains supporting schedule pertaining to MCERA's Pension actuarial methods, assumptions, funded status and annual required contributions.

Management Responsibility of Financial Reporting

MCERA management is responsible for the complete and fair presentation of the financial information in accordance with generally accepted accounting principles (GAAP) in the United States. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and operating results of MCERA.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited), continued
June 30, 2012

Major Initiatives and Significant Events

Several major initiatives were undertaken during the year including:

- Negotiated a settlement agreement with the Association's former actuary for errors and omissions in prior reports and to finance the cost of correcting an error in employee contribution rates from July 2009 to January 2012.
- Significant progress was made in the project to determine the extent of overpayments or underpayments by members from July 2009 to January 2012, and to correct any errors in compliance with all Internal Revenue Service regulations.
- Engaged a new actuary to conduct a triennial experience study of economic and demographic assumptions, the recommendations of which were incorporated into the June 30, 2011 valuation study.
- The recruitment and selection process for a Retirement Administrator to succeed the current administrator who retired was completed on June 4, 2012.
- Implemented several new policies to bring the Association closer to best practices, including a cash management policy, Internal Revenue Service compliant retiree health care policy, overpayment collection policy, and placement agent policy.
- Engaged in a memorandum of understanding with the Assessor/Clerk Recorder for fiscal and accounting services.

Investment and Economic Summary

In accordance with state constitutional mandates, the Board adopts a strategic asset allocation policy designed to ensure diversification among asset classes and achieve MCERA's long-term investment objectives. Although MCERA invests on a long term horizon, short term returns are important to keep in mind.

Investment returns in Fiscal Year 2011/12 fluctuated throughout the year along with the overall market conditions. The portfolio was down -1.04% for the fiscal year compared with the favorable returns in 2011 of 21.87%. Returns for the first quarter (2012) were 9.82% and for the second quarter were negative 3.19% reflecting the lost momentum in the economic recovery in the U.S.

Total portfolio returns were 11.35%, 2.09% and 5.63% for three, five and seven year periods ending June 30, 2012, respectively. The Association maintains an assumed net rate of investment return of 7.75% per year. The rate of return on MCERA's investment portfolio is an integral component of the annual additions to the pension plan as total investment income is typically the largest contributor to the plan's annual additions to retirement plan assets.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited), continued
June 30, 2012

Investment and Economic Summary, continued

The economic climate on June 30, 2012 was summarized as "the best of a bad lot" in that the forecast for GDP growth in the United States in the 2% range actually looked 'stellar' compared to the prospects facing most of the globe's economies. First quarter (2012) GDP growth was revised down to 2% and the second quarter (2012) came in at a very subdued 1.5%. The U.S. equity markets could not maintain the swift pace set earlier in 2012 and the Russell 3000 Index (-3.15%) retreated. The general safety of U.S. Treasuries helped drive the U.S. Bond market. The Fed continued its low-rate policies. The non-U.S. Equity markets marched downward except for a small uptick in June, 2012.

Funded Status and Actuarial Reporting

MCERA maintains a funding goal to establish contributions that fully fund the Association's liabilities, and that, as a percentage of payroll, remain as level as possible for each generation of active members. Actuarial valuations are performed annually with actuarial experience investigations conducted triennially in accordance with state statute. The use of realistic assumptions is important in maintaining the necessary funding while paying promised benefits. Each year the actual experience of the Association is compared to our assumptions and the differences are studied to determine whether changes in the contribution requirements are necessary. In addition, triennially, the actuarial experience investigation is undertaken to review the actuarial assumptions and compare the actual experience during the preceding three year period with that expected under those assumptions.

Mendocino County issued \$31 million of pension obligation bonds in December 1996 and \$76 million of pension obligation bonds in December 2002 to satisfy the Unfunded Accrued Actuarial Liability (UAAL) for the County, calculated as of that date.

In the June 30, 2012 valuation, the ratio of the actuarial value of assets to the actuarial accrued liabilities was 74.1% which was an increase from the prior year's valuation funded ratio of 73.6%. The Association's UAAL as of June 30, 2012 was \$126,527,019. As of June 30, 2012, there are 27 years remaining in the declining 30-year amortization period of the UAAL.

The aggregate employer rate calculated in this valuation increased to 25.65% of payroll from 23.57% in last year's valuation. The aggregate employee rate increased to 9.76% of payroll from 9.73% in last year's valuation.

Awards and Achievements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to MCERA for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.

**Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Management's Discussion and Analysis (unaudited), continued
June 30, 2012**

Awards and Achievements, continued

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such basic financial statements must satisfy both accounting principles generally accepted in the United States of America and legal requirements.

Request for Information

The financial report is designed to provide the MCERA Board of Retirement, our membership, taxpayers, investment managers and creditors with a general overview of MCERA finances and to account for the money it receives. Questions concerning any of the information in this report or requests for additional financial information should be addressed to:

Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, CA 95482

Respectfully submitted,

Richard A. White, Jr.
Retirement Administrator

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Statement of Net Assets Available for Benefits
June 30, 2012

Assets

<u>Investments</u> , at fair value:		
Mutual funds	\$	333,396,451
Cash equivalents		2,354,860
Real estate partnership		6,362,464
Real estate - property		738,992
		342,852,767
Total investments, at fair value		
<u>Receivables</u> :		
Members' contributions	\$	75,196
Employer contributions		204,466
		279,662
Total receivables		
<u>Other assets</u>		3,786
Total assets		\$ 343,136,215

Liabilities

<u>Liabilities</u> :		
Accounts payable	\$	142,052
Accrued expenses and other liabilities		257,351
		399,403
Total liabilities		\$ 399,403

Net Assets Available for Benefits

<u>Net assets available for benefits</u>	\$ 342,736,812
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Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Statement of Changes in Net Assets Available for Benefits
for the year ended June 30, 2012

Additions (deductions) to net assets attributed to:

Investment income (loss):

Net depreciation in fair value of investments	\$ (11,133,208)
Rent income, net of expenses	45,644
Interest income	64,384
Dividend income	7,260,965
Investment expenses	<u>(316,274)</u>
Net investment loss	(4,078,489)

Contributions:

Members'	\$ 4,840,275
Employer	<u>11,811,076</u>
Total contributions	<u>16,651,351</u>
Total additions, net	12,572,862

Deductions from net assets attributed to:

Benefits paid to retirees	24,180,110
Administrative expenses	<u>698,463</u>
Total deductions	<u>24,878,573</u>
Net decrease	(12,305,711)

Net assets available for benefits:

Beginning of year	<u>355,042,523</u>
End of year	<u><u>\$ 342,736,812</u></u>

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements
June 30, 2012

Note 1: Description of Plan:

Description of Association and Applicable Provisions of the Law:

The Mendocino County Employees' Retirement Association (MCERA or the Plan) is an integrated public retirement system established under and subject to the legislative authority of the State of California as enacted and amended by the County Retirement Act of 1937 (Chapter 677 Statutes of 1937). MCERA is a multiple-employer cost sharing defined benefit plan for the County of Mendocino, the Mendocino County Courts, and the Russian River Cemetery District. MCERA was approved by the Board of Supervisors to become effective January 1, 1948, and was integrated with Social Security on January 1, 1956.

Membership in the Plan at June 30, 2012 consisted of the following:

Retirees and beneficiaries receiving benefits	1,217
Terminating plan members entitled to but not yet receiving benefits	356
Active plan members	1,069
 Total	 2,642
 Number of participating employers	 3

A cost-sharing multiple employer plan is a single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members. Other special districts within Mendocino County are eligible, but have not elected to participate.

All permanent employees who work at least 32 hours per week become members of the Plan on the first day of the pay period following employment. Employees are classified as either General or Safety (Law Enforcement or Probation) members, and are assigned to one of three tiers based on entry date and job classification.

Retirement benefits offered by the Plan include normal retirement, disability retirement and service-connected disability retirement. A death benefit is available to beneficiaries. An annual cost of living adjustment of no more than 3 percent may be granted by the Board of Retirement. For 2012, the Board of Retirement approved a cost of living increase of 3.0%, depending on date of retirement, which became effective April 1, 2012.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 1: Description of Plan, continued:

Description of Association and Applicable Provisions of the Law, continued:

Health benefits for retired employees have been funded by the Plan in the past. As of September 1, 1998, the County of Mendocino had assumed responsibility for partial funding of the cost of health care for the retired employees of the County of Mendocino, and will be responsible for the cost of health care when MCERA earnings on investments are not in excess of required transfers of earnings to retirement reserve accounts. On September 22, 2009, the Board of Supervisors adopted a superceding resolution which stated that retiree health care would only be paid from earnings in excess of transfers to the retirement reserve accounts or by the retirees in the form of a premium. For eligibility for health care coverage, prior to September 1, 1998, retirees must have served 10 years prior to retirement with the County of Mendocino, and retire as an active member. The retiree health benefit program qualifies under section 401(h) of the Internal Revenue Code. Health care payments to reimburse the County of Mendocino for the cost of retiree health care are made from a special reserve that has been established as a result of prior excess earnings. There were no health care subsidy amounts paid during the year ended June 30, 2012.

Note 2: Summary of Significant Accounting Policies:

Reporting Entity:

MCERA is governed by the Board of Retirement and is considered an independent entity. The Association is a component unit of the County of Mendocino and is being reported as a Pension Trust Fund in the County's Financial Report in accordance with Governmental Accounting Standards Board Statement No. 14.

Basis of Accounting:

The Association follows Governmental Accounting Standards Board (GASB) accounting principles and reporting guidelines, and financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Retirement Administrator to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 2: Summary of Significant Accounting Policies, continued:

Derivatives:

MCERA's investment policy permits the use of derivative instruments to minimize the exposure of certain of its investments to adverse fluctuations in financial and currency markets and enhance yields. MCERA does not use derivatives for speculative use or to create leverage.

During the year ended June 30, 2012 MCERA owned no derivatives directly in its portfolio.

Custodial Credit Risk:

Custodial risk for deposits in the Mendocino County trust is assumed by the County of Mendocino. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MCERA would not be able to recover the value of the investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in MCERA's name, and held by the counterparty. MCERA's investment securities are not exposed to custodial credit risk because all securities are held by MCERA's custodial bank in MCERA's name, or by other qualified third party administrator trust accounts.

Except for a statement that duties of the Board of Retirement, MCERA officers and employees shall be discharged with care, skill, prudence, and diligence, MCERA has no formal policy for managing custodial credit risk.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. This is measured by the assignment of ratings by nationally recognized statistical rating organizations. Investment allocation guidelines according to the investment policy are as follows:

	Allowable Range	Current Allocation
U.S. Equity	33% - 43%	41%
Non-U.S. Equity	20% - 30%	23%
U.S. Fixed Income	23% - 33%	27%
Real Estate	4% - 14%	9%

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 2: Summary of Significant Accounting Policies, continued:

Credit Risk, continued:

MCERA's Investment Policy does not allow for a single investment in real estate that is in excess of 5% of total assets. With respect to common stocks, MCERA has a goal of diversifying the portfolio among a cross-section of industries that have sound long-term growth potential. Similar restrictions apply to fixed income securities.

Interest Rate Risk:

Interest rate risk is the risk that changes in the interest rate will adversely affect the fair value of an investment. MCERA has not adopted a formal policy to manage interest rate risk.

Member Termination:

Upon separation from MCERA, members' accumulated contributions are refundable with interest accrued through the prior June 30 or December 31. Interest on member accounts is credited semiannually on June 30 and December 31. Withdrawal of such accumulated contributions results in forfeiture of the related vested benefits.

Plan Termination:

MCERA is administered in accordance with the provisions of California Government Code Section 31450 and accompanying code sections. California Government Code Section 31483 allows the governing body of the County, the County Courts, or special district, through the adoption of an ordinance or resolution, to terminate the applicability of the Plan to employees of the County, Courts, or district whose services commence after a given future date.

Risk Management:

MCERA is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and major downturns in financial markets. For the past several years, MCERA has obtained coverage from commercial insurance companies for errors and omissions coverage related to activities of the Board of Retirement, but all other risks of loss, except losses due to depreciation in the fair market value of investments, is assumed by the sponsoring employers. MCERA has effectively managed risk through various employee education and prevention programs and careful selection of investments. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 2: Summary of Significant Accounting Policies, continued:

Risk Management, continued:

The Mendocino County Department of Human Resources has assumed the duties of administering the health care claims of retirees. During the fiscal year ended June 30, 2011 MCERA came into full compliance with Internal Revenue Code Section 401(h) for any flow of funding.

Based on Mendocino County Board of Supervisors Resolution No. 98-147, County Counsel concluded that the County Board of Supervisors was ultimately responsible for the funding, administration and decision-making dealing with all aspects of the Plan. As a result, no incurred but not reported claims were included as liabilities on the financial statements for the year ended June 30, 2012. For the year ended June 30, 2012, MCERA had no excess earnings that can be used for the payment of retiree health benefits.

Current and Future Accounting Pronouncements:

GASB Statement No. 53 - *Accounting and Reporting for Derivative Instruments* became effective for all years beginning after June 15, 2009. This statement provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. If MCERA invests in derivative instruments in the future, this statement will be used to measure, recognize, and disclose those transactions.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for inclusion of component units in the financial reporting entity, and amends the criteria for reporting component units as if they were part of the primary government. Although the provisions for this statement are effective for fiscal years beginning after June 15, 2012, it seems to clarify and confirm the existing relationship of MCERA as a component unit of the County of Mendocino.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for periods beginning after December 15, 2011, will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

Subsequent Events:

Management has evaluated all subsequent events through January 29, 2013, the date the financial statements were available to be issued. See Note 7 for additional information.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 3: Investments:

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. All investments listed in the Statement of Net Assets Available for Benefits are registered securities held by the Association's agent in the Association's name. The Board of Retirement has exclusive control over all investments of the Association and is responsible for establishing investment objectives, strategies and policies.

The Board of Retirement has adopted an Investment Policy, which provides the framework for the management of MCERA's investments. The Investment Policy establishes MCERA's investment objectives and defines the principal duties of the Board of Retirement and the investment managers. The asset allocation plan is an integral part of the Investment Policy and is designed to provide an optimum and diversified mix of asset classes with return expectations to satisfy expected liabilities while minimizing risk exposure. MCERA currently employs investment managers to manage its assets subject to the provisions of the investment Policy.

Cash equivalents consist of cash in trust with the Treasurer of the County of Mendocino. Cash from deposits and cash needed for daily operational purposes is held in a pooled account with other County funds. The County Treasurer is responsible for the management, control and safekeeping of all investments in the pooled fund. Interest on funds in the County investment pool is computed quarterly based on average daily balance. A deposit in the pooled account approximates fair value.

Security transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities. Unrealized gains and losses on investments are reported as "net appreciation (depreciation) in the fair value of investments." The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of Plan investments.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 3: Investments, continued:

The Association's cash and investments stated at fair value as of June 30, 2012, are as follows:

Cash in trust - Mendocino County	<u>\$ 2,354,860</u>
Total cash equivalents	<u>2,354,860</u>
U.S. Government and corporate bonds	92,893,393
International equities	77,140,774
Domestic equities - small cap	21,518,466
Domestic equities - mid cap	21,744,297
Domestic equities - large cap	96,725,492
Real estate	<u>23,374,029</u>
Total mutual funds	<u>333,396,451</u>
Real estate partnership	6,362,464
Real estate - property	<u>738,992</u>
Total investments	<u><u>\$ 342,852,767</u></u>

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 4: Fair Value Measurement of Investments:

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2012.

Mutual funds and real estate partnership: Valued at the net asset value of shares held by the Plan at year end.

Real estate – property: Valued at cost, which approximates fair value.

The methods described above may produce a fair value calculation that may not be as indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 4: Fair Value Measurement of Investments, continued:

The following tables set forth by level, within the fair value hierarchy, MCERA's investments at fair value as of June 30, 2012:

	Investments at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Bond funds	\$ 92,893,393	\$ -	\$ -	\$ 92,893,393
International securities	77,140,774	-	-	77,140,774
Domestic securities	139,988,255	-	-	139,988,255
Real estate	23,374,029	-	-	23,374,029
Total mutual funds	333,396,451	-	-	333,396,451
Real estate partnership	6,362,464	-	-	6,362,464
Real estate - property	-	-	738,992	738,992
Total investments at fair value	\$ 339,758,915	\$ -	\$ 738,992	\$ 340,497,907

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 investments for the year ending June 30, 2012 as follows:

	Real Estate - Property
Balance, beginning of year	\$ 738,992
Unrealized gains (losses)	-
Purchases	-
Sales	-
Issuances	-
Settlements	-
Balance, end of year	\$ 738,992

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 5: Contributions:

The actuarially determined member contribution rates payable for fiscal year 2013-14 average 9.76 percent of payroll. The actual member rate depends on the member's age at the time of hire, General, Safety, or Probation membership, and tier. For fiscal year 2013-14, employers are also required to contribute an actuarially determined rate of 25.65 percent of payroll in aggregate. The actual employer rate depends on General, Safety, or Probation membership, and tier. The member and employer contribution rates are adjusted annually to maintain the appropriate funding status of the Plan. The employer contribution rate is actuarially determined to provide for the balance of the contributions needed to fund the annual normal cost (basic and cost of living) and the amortization of the unfunded actuarial accrued liability.

The Plan had an unfunded actuarial accrued liability of \$47,154,000 at June 30, 2001. This unfunded liability was being amortized through June 30, 2017, at which time it was anticipated the Plan would be fully funded. In December, 1996, the County of Mendocino issued pension obligation bonds, of which \$30,112,488 of the proceeds were contributed to the Plan. In December, 2002, due to a continued downward spiral of market values for MCERA investments, the County of Mendocino issued additional pension obligation bonds. The total of bonds sold was \$92,208,602, of which \$76,299,000 was transferred to the Plan for additional investment, \$13,220,061 was used to defease fifty percent of the 1996 pension obligation bonds, and the remainder of \$2,689,541 was used to pay the costs of issuing the bonds. The proceeds from the 2002 pension obligation bonds reduced the unfunded pension liability to less than 10 percent of the actuarial accrued liability at June 30, 2004. The funding agreement in effect prior to July 1, 2009 indicated that the County was not required to fund the UAAL that was not in excess of the target of 10 percent of the total pension liability. In November 2009, that funding agreement was voided by mutual agreement between the Association Board of Retirement and the Mendocino County Board of Supervisors. Subsequent to the funding agreement, the Board of Retirement stipulated that the County of Mendocino must amortize the UAAL over a 30-year period from June, 2009.

For the actuarial valuation for the year ended June 30, 2010, the prior actuary changed their assumptions regarding withdrawals by inactive members. This change in assumption affected the projected number of inactive members who would withdraw their contributions and forego a retirement, compared to those who would leave their contributions and vested benefits with the Plan and retire at a later date. The result was an estimated increase of \$3.3 million in the County's contribution for the fiscal year ended June 30, 2012.

The UAAL as of June 30, 2012 is \$126.5 million, which the County of Mendocino is required to amortize in the future. The funded ratio at June 30, 2012 is 74.1%, as indicated on the Schedule of Funding Progress on Page 24. The *Actuarial Valuation and Review* report issued by The Segal Company as of June 30, 2012 recommended employer and member contribution rates that aggregate to 25.65% and 9.76%, respectively.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 5: Contributions, continued:

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry age normal cost method (individual basis)
Amortization method	Level % of payroll for total unfunded liability
Remaining amortization period	27 years (declining) for all UAAL
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 25% of the market value. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves.
Actuarial assumptions:	
Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.50%
Projected salary increases *	4.50% to 9.00%
* Includes inflation at	3.50% + 0.50% across-the-board salary increases
Cost of living adjustments	3.00% of retirement income
Years of life expectancy after retirement	General members: RP-2000 Combined Healthy Mortality Table for males and females, set back 2 years for males and 1 year for females Safety/Probation members: RP-2000 Combined Healthy Mortality Table for males and females, with no setback for males and 1 year set forward for females.
Years of life expectancy after disability	General members: RP-2000 Combined Healthy Mortality Table for males and females, set forward 2 years. Safety/Probation members: RP-2000 Combined Healthy Mortality Table for males and females, set forward 4 years.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 5: Contributions, continued:

Life expectancy after retirement for employee contribution rate purposes

General members: RP-2000 Combined Healthy Mortality Table for males and females, set back 2 years for males and 1 year for females weighted 30% male and 70% female.
 Safety/Probation members: RP-2000 Combined Healthy Mortality Table for males and females, with no setback for males and 1 year set forward for females weighted 80% male and 20% female.

Note 6: Reserves:

The Association had contingency reserves of \$3,550,728, at June 30, 2012 to fund transfers to retirement reserve accounts in the event that sufficient earnings on investments are not received in the future to fulfill the requirement of transferring current earnings to the extent of 7.75 percent of retirement reserve balances to those reserves.

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. A summary of the various reserve accounts, which comprise net assets available for pension and other benefits at June 30, 2012 (under the five-year smoothed asset valuation method for actuarial valuation purposes) is as follows:

Employee reserves	\$ 62,997,613
Employer reserves	(35,311,033)
Retiree reserves	270,972,746
Undesignated reserves (Note 7)	658,654
1% contingency reserves	3,550,728 *
Settlement reserve	248,093
Miscellaneous reserves	9,259
Total reserves	303,126,060
Cumulative unallocated net unrealized gain on investments	62,792,624
Total allocated reserves (smoothed actuarial value after corridor limits)	365,918,684
Net assets in excess (deficit of reserves)	(23,181,872)
Net assets held in trust of pension benefits	\$ 342,736,812

* Based on their June 30, 2012 valuation, Segal reported a 1% contingency reserve of \$3,431,339.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Notes to the Financial Statements, continued
June 30, 2012

Note 6: Reserves, continued:

The undesignated reserve used historically for providing health care benefits of retirees was derived from excess earnings of the Association in prior years.

Note 7: Subsequent Events:

Subsequent events are those events or transactions that occur subsequent to the effective date of the financial statements, but prior to the issuance of final reports, which may have a material effect on the financial statements or disclosures therein.

The market value of assets in MCERA's portfolio has increased from \$343 million to \$357 million between July 1, 2012 and December 31, 2012. Capital markets continue to be highly volatile resulting in significant swings in market value, both positive and negative.

Since July 1, 2011, MCERA's new actuary, The Segal Company (Segal), determined that the employee basic contribution rate for fiscal years 2009-10, 2010-11 and 2011-12, as calculated by the prior actuary, was higher in the aggregate than it should have been. This resulted in a corresponding underpayment by employers during the same period. MCERA is working with a team of external and internal professionals to reimburse overpayments and collect underpayments to the pension fund based on the corrected rates, and in accordance with all tax laws and regulations. Corrected rates will be in effect January 8, 2012, and the project is expected to be completed before the end of fiscal year 2012-13.

MCERA submitted a Voluntary Correction Program (VCP) filing with the IRS, stating that it recognized and posted excess earnings for fiscal years ending June 30, 2004 through 2006 that may not have been fully consistent with Government Code Section 31529.4 and/or IRC Section 401(h). The residual amount of excess earnings recognized and posted over this time period has been classified as "Undesignated reserves" and was \$658,654 at June 30, 2012. The excess earnings postings are being reviewed by tax counsel, actuary, and an accounting firm to develop findings and recommendations for submission to the IRS. The IRS review on issues common to retirement systems such as MCERA that are maintained under the County Employees' Retirement Law of 1937 has begun. The IRS review, including any issues specific to MCERA, is expected to be completed sometime in calendar year 2013.

Mendocino County Employees' Retirement Association
(A Component Unit of the County of Mendocino)
Required Supplementary Information (unaudited)
June 30, 2012

Schedule of Funding Progress (dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability ("AAL") - Entry Age (b)	Unfunded AAL ("UAAL") (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
6/30/2005	\$ 253,487	\$ 289,467	\$ 35,980	87.6%	\$ 57,664	62.4%
6/30/2006	288,461	320,123	31,662	90.1%	57,665	54.9%
6/30/2007	317,937	358,259	40,322	88.7%	65,899	61.2%
6/30/2008	353,421	373,832	20,411	94.5%	70,880	28.8%
6/30/2009	336,263	403,196	66,933	83.4%	72,235	92.7%
6/30/2010	343,202	434,987	91,785	78.9%	69,004	133.0%
6/30/2011	347,732	472,644	124,912	73.6%	64,144	194.7%
6/30/2012	362,487	489,014	126,527	74.1%	56,596	223.6%

Schedule of Employer Contributions
(dollar amounts in thousands)

Year Ended	Annual Required Contribution	Percentage Contributed
6/30/2005	\$ 3,221	47%
6/30/2006	4,996	79%
6/30/2007	7,533	100%
6/30/2008	7,232	100%
6/30/2009	6,046	141%
6/30/2010	9,571	91%
6/30/2011	9,554	100%
6/30/2012	11,811	100%

Richard A. White, Jr.
Retirement Administrator



Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *RAW*
Subject: Actuarial Valuation of June 30, 2012

The Board received The Segal Company presentation of the Actuarial Valuation of June 30, 2012 at your meetings on December 12, 2012 and January 3, 2013. The report summarizes the actuarial data used in the valuation, establishes the funding requirements for the fiscal year 2013-2014 and analyzes the preceding year's experience. The presentations were opportunities for the Board and our stakeholders to review the report with the actuary prior to taking formal action on it.

At the January meeting, the Board requested that the Audit Report be reviewed by the Audit and Budget Committee before taking further action on the actuarial valuation to ensure consistency of information contained in both reports. The committee met on January 28, 2013 and has recommended the draft audit for approval by the Board at this meeting under a separate agenda item.

Mr. Andy Yeung, Vice President and Associate Actuary, The Segal Company, will be in attendance to review the valuation report and answer any questions the Board or public may have as the report will be considered for approval.

Recommended action: Approve the Actuarial Valuation of June 30, 2012.

RAW
Attachments

Richard A. White, Jr.
Retirement Administrator



Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *raw*
Subject: Discussion and Possible Action Regarding a Cost of Living Adjustment (COLA)
as of April 1, 2013

Discussion

Pursuant to Government Code Section 31870.1, MCERA annually adjusts the benefit allowances relative to the increase or decrease in the Consumer Price Index (CPI). This adjustment, known as a Cost of Living Adjustment (COLA), is effective April 1st of each year. MCERA's actuary, The Segal Company, calculates the amount of the COLA, if any, that shall be granted to retirees for the year following April 1 according to the formula described in the law. Section 31870.1 states that any increase or decrease in the CPI is to be rounded to the nearest one-half of one percent (2.22% rounded to 2.00%).

The COLA may be increased up to the maximum of three percent (3%) by applying accumulated adjustments carried forward from those years where the increase in the reported cost of living exceeded three percent. For benefit recipients who began receiving benefits on or before April 1, 1985, their allowances will be increased by a 3.0% COLA, with 1.0% deducted from their COLA banks. For benefit recipients who began or will begin receiving benefits on April 2, 1985 through April 1, 2013, their allowances will be increased by 2.0% with no reduction in their COLA banks, since their COLA banks are presently at zero.

Note that members with membership dates on and after January 1, 2013 will be placed in separate tiers due to the recent CalPEPRA legislation. Since the new tiers have a 0% COLA provision, the COLA discussed above will not apply to retired members and beneficiaries enrolled in those tiers.

Recommended Motion/Action

Approve the Cost of Living Adjustment (COLA) calculated by The Segal Company as of April 1, 2013.

raw
Attachment

§31870.1. Determination; maximum annual change of three percent in allowances; limitation on reduction

The board shall before April 1 of each year determine whether there has been an increase or decrease in the cost of living as provided in this section.

Notwithstanding Section 31481 or any other provision of this chapter (commencing with Section 31450), every retirement allowance, optional death allowance, or annual death allowance payable to or on account of any member, of this system or superseded system who retires or dies or who has retired or died shall, as of April 1st of each year, be increased or decreased by a percentage of the total allowance then being received found by the board to approximate to the nearest one-half of 1 percent, the percentage of annual increase or decrease in the cost of living as of January 1st of each year as shown by the then current Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the area in which the county seat is situated, but such change shall not exceed 3 percent per year; however, the amount of any cost-of-living increase or decrease in any year which is not met by the maximum annual change of 3 percent in allowances shall be accumulated to be met by increases or decreases in allowance in future years; except that no decrease shall reduce the allowance below the amount being received by the member or his beneficiary on the effective date of the allowance or the application of this article, whichever is later.

(Amended by Stats. 1978, Ch. 900, Sec. 11)



THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

RECEIVED BY

JAN 28 2013

The Mendocino County Employees' Retirement Association
Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Associate Actuary
ayeung@segalco.com

VIA EMAIL & USPS

January 23, 2013

Mr. Richard A. White
Retirement Administrator
Mendocino County Employees' Retirement Association
625-B Kings Court
Ukiah, California 95482

**Re: Mendocino County Employees' Retirement Association
Cost-of-Living Adjustments (COLA) as of April 1, 2013**

Dear Rich:

We have determined the cost-of-living adjustments for the Association in accordance with Section 31870.1, as provided in the enclosed exhibit.

The cost-of-living factor to be used by the Association on April 1, 2013 is determined by comparing the December CPI for the San Francisco-Oakland-San Jose Area (with 1982-84 as the base period) in each of the past two years. The ratio of the past two December indices, 239.533 in 2012 and 234.327 in 2011, is 1.0222. The County Law section cited above indicates that the resulting percentage change of 2.22% should be rounded to the nearest one-half percent, which is 2.0%.

Please note the above cost-of-living adjustment calculated using established procedures for MCERA may result in adjustments different from those calculated using alternative procedures by other systems.

Note that members with membership dates on and after January 1, 2013 will be placed in separate tiers due to the recent CalPEPRA legislation. Since the new tiers have a 0% COLA provision, the enclosed exhibit is not applicable to retired members and beneficiaries with membership dates on and after January 1, 2013.

The actual cost-of-living adjustment is dependent on date of retirement. The CPI adjustment to be applied on April 1, 2013 is provided in Column (4) of the enclosed exhibit. The COLA bank on April 1, 2013 is provided in Column (5).

Mr. Richard A. White
January 23, 2013
Page 2

Please give us a call if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Andy Yeung". The signature is written in a cursive style with a large, sweeping "Y" and "E".

Andy Yeung

AW/hy

Enclosure

5229053v1/13459.001

Mendocino County Employees' Retirement Association
 Cost-Of-Living Adjustment
 As of April 1, 2013

		(1)	(2)	(3)	(4)	(5)
Retirement Date		April 1, 2012 Accumulated Carry-over	CPI Change*	CPI Rounded**	CPI Used***	April 1, 2013 Accumulated Carry-over****
Tiers 1, 2 and 3						
Section 31870.1						
Maximum Annual COLA		3.0%				
On or Before 4/1/1971		54.0%	2.22%	2.0%	3.0%	53.0%
04/02/1971	to 04/01/1972	52.0%	2.22%	2.0%	3.0%	51.0%
04/02/1972	to 04/01/1973	51.0%	2.22%	2.0%	3.0%	50.0%
04/02/1973	to 04/01/1974	50.5%	2.22%	2.0%	3.0%	49.5%
04/02/1974	to 04/01/1975	47.5%	2.22%	2.0%	3.0%	46.5%
04/02/1975	to 04/01/1976	42.5%	2.22%	2.0%	3.0%	41.5%
04/02/1976	to 04/01/1977	37.5%	2.22%	2.0%	3.0%	36.5%
04/02/1977	to 04/01/1978	37.0%	2.22%	2.0%	3.0%	36.0%
04/02/1978	to 04/01/1979	34.5%	2.22%	2.0%	3.0%	33.5%
04/02/1979	to 04/01/1980	30.0%	2.22%	2.0%	3.0%	29.0%
04/02/1980	to 04/01/1981	26.5%	2.22%	2.0%	3.0%	25.5%
04/02/1981	to 04/01/1982	14.5%	2.22%	2.0%	3.0%	13.5%
04/02/1982	to 04/01/1983	4.5%	2.22%	2.0%	3.0%	3.5%
04/02/1983	to 04/01/1984	2.0%	2.22%	2.0%	3.0%	1.0%
04/02/1984	to 04/01/1985	2.0%	2.22%	2.0%	3.0%	1.0%
04/02/1985	to 04/01/1986	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1986	to 04/01/1987	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1987	to 04/01/1988	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1988	to 04/01/1989	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1989	to 04/01/1990	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1990	to 04/01/1991	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1991	to 04/01/1992	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1992	to 04/01/1993	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1993	to 04/01/1994	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1994	to 04/01/1995	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1995	to 04/01/1996	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1996	to 04/01/1997	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1997	to 04/01/1998	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1998	to 04/01/1999	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/1999	to 04/01/2000	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2000	to 04/01/2001	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2001	to 04/01/2002	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2002	to 04/01/2003	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2003	to 04/01/2004	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2004	to 04/01/2005	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2005	to 04/01/2006	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2006	to 04/01/2007	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2007	to 04/01/2008	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2008	to 04/01/2009	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2009	to 04/01/2010	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2010	to 04/01/2011	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2011	to 04/01/2012	0.0%	2.22%	2.0%	2.0%	0.0%
04/02/2012	to 04/01/2013		2.22%	2.0%	2.0%	0.0%

* Based on ratio of December 2012 CPI to December 2011 CPI for the San Francisco - Oakland - San Jose Area.
 ** Based on CPI change rounded to nearest one-half percent.
 *** These are the cost-of-living adjustment factors to be applied on April 1, 2013.
 **** These are the carry-over of the cost-of-living adjustments that have not been used on April 1, 2013.

Richard A. White, Jr.
Retirement Administrator



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Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *raw*
Subject: Monthly Financial Report

A. Financial Reports

The monthly reports for December, 2012 (final version) are included for your review.

1. Statement of Plan Net Assets.
 - This report details a "snapshot" of account balances for the period covered and the fiscal year to date activity. The report indicates the assets available for future payments to retirees and any current liabilities owed.
2. Statement of Changes in Plan Net Assets.
 - This report details a view of the current fiscal year additions to and deductions from the plan and covers the most recently available and the fiscal year to date activity.
3. Cash Flow Analysis.
 - This report is a 'snapshot' of the cash available to MCERA during the reporting period. MCERA monitors the cash within the fund in accordance with the cash flow policy.
4. Vendor Ledger.
 - This report is generated from the Peachtree accounting system and includes vendor transactions and balances for the month of January, 2013.

B. Training Courses for MCERA Staff for remainder of Fiscal Year

This report is provided as a separate item.

raw
Attachment(s).

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
December 31, 2012
(FINAL)

ASSETS

CASH AND EQUIVALENTS

Trust Cash-held at county \$ 4,088,208

TOTAL CASH AND EQUIVALENTS **4,088,208**

CURRENT ASSETS

Accounts Receivable 3,000
 Recoupments 1,509

TOTAL CURRENT ASSETS **4,509**

PROPERTY AND EQUIPMENT

Equipment 3,786

TOTAL PROPERTY AND EQUIPMENT **3,786**

INVESTMENTS, ADJUSTED TO MARKET

Unrealized Gain(Loss) Invest 40,010,585
 Fixed Income 90,619,505
 International Equities 86,115,122
 Small Cap Equities 20,633,686
 Mid Cap Equities 13,452,353
 Large Cap Equities 80,861,547
 Real Estate 29,648,196

TOTAL INVESTMENTS, AT MARKET **361,340,994**

TOTAL ASSETS **\$ 365,437,497**

LIABILITIES

CURRENT LIABILITIES

Accounts Payable \$ 45,356
 Accrued Wages - 1920 Account 196,457
 Buck Settlement Reserve 248,093

TOTAL CURRENT LIABILITIES **489,906**

TOTAL NET ASSETS **\$ 364,947,591**

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Six Months Ended December 31, 2012
(FINAL)

	CURRENT MONTH	YEAR TO DATE
ADDITIONS		
CONTRIBUTIONS		
Employer	\$ 970,845	\$ 6,936,528
Plan Members	503,597	2,394,556
	1,474,442	9,331,084
INVESTMENT INCOME		
Unrealized Gain/(Loss) Invests	(4,207,648)	11,131,403
Rental Income, Net of Expenses	4,138	16,437
Interest	0	13,819
Dividends	4,028,400	5,359,539
Capital Gains	9,793,253	9,994,643
Less Investment Expense	(63,669)	(277,726)
	9,554,474	26,238,115
TOTAL ADDITIONS	11,028,916	35,569,199
DEDUCTIONS		
Benefit Payment, Subsidies, & Refunds	(2,016,710)	(13,003,619)
Administrative Expenses	(63,860)	(354,798)
	2,080,570	13,358,417
TOTAL DEDUCTIONS	2,080,570	13,358,417
Increase (Decrease) in Net Assets	8,948,346	22,210,782
NET ASSETS		
Beginning of Period	355,999,248	342,736,812
End of Period	\$ 364,947,594	\$ 364,947,594

MENDOCINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
CASH FLOW ANALYSIS
For the Seven Months Ended January 31, 2013
(Final)

	CURRENT MONTH	YEAR TO DATE
ADDITIONS		
CONTRIBUTIONS		
Employer	0	6,936,528
Plan Member	0	2,394,556
	<hr/>	<hr/>
TOTAL CONTRIBUTIONS	0	9,331,084
INVESTMENT INCOME		
Rental Income, Net of Expenses	3,696	20,132
Interest	0	13,819
Dividends	107,804	2,077,051
Capital Gains	0	0
Less Investment Expense	(12,686)	(290,412)
	<hr/>	<hr/>
TOTAL INVESTMENT INCOME	98,814	1,820,590
	<hr/>	<hr/>
TOTAL ADDITIONS	98,814	11,151,674
DEDUCTIONS		
Benefit Payments and Subsidies	(2,087,451)	(15,091,069)
Administrative Expenses	(71,724)	(426,519)
	<hr/>	<hr/>
TOTAL DEDUCTIONS	(2,159,175)	(15,517,588)
OTHER INCREASES/(DECREASES)		
Accounts Receivable	261	(1,594)
Accounts Payable	249,237	337,085
Buck Settlement	0	0
Sale/Purchase of Investments	0	3,673,248
	<hr/>	<hr/>
TOTAL OTHER INCREASES/(DECREASES)	249,498	4,008,739
	<hr/>	<hr/>
INCREASE (DECREASE) IN CASH	\$ (1,810,863)	\$ (357,175)
SUMMARY		
Cash at End of Period	\$ 2,277,347	\$ 2,277,347
Cash at Beginning of Period	4,088,210	2,634,526
	<hr/>	<hr/>
INCREASE (DECREASE) IN CASH	\$ (1,810,863)	\$ (357,179)
	<hr/>	<hr/>

Richard A. White, Jr.
Retirement Administrator



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Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *now*
Subject: TRAINING COURSES FOR MCERA STAFF

Recommended action: Approve the training plan for the remainder of Fiscal Year 2012/13 and authorize the amount of \$19,025 to be added to the budget for these courses.

Training Plan for the Remainder of Fiscal Year 2012/13

The Board of Retirement received the mid-year budget review at the January meeting where there was discussion regarding the training and education plan for the MCERA staff. It was noted that the budgeted amount of \$5,000 for the Fiscal Year was exceeded during the first six months and it was suggested to the Board that I anticipated that the training budget would be further exceeded during the second half of the fiscal year because of the training courses scheduled for staff during this time period.

The Board asked for a detailed description of these training courses and the budget for them which are included on the attached sheet. The training plan lists a number of the usual training courses for staff members such as the CALAPRS Roundtables which are one day sessions that are dedicated to a specific group (e.g., administrator, investment officer, benefits and operations, disability, etc) and have agendas that are topical and tailored to the time and the SACRS conferences. The training plan also lists a couple of courses that are non-recurring courses but which are important for the staff to attend.

1. The CALAPRS Management and Leadership Academy is a multi-session course designed for a supervisor in a small system such as ours with a couple of years of experience leading a team in benefits, accounting, investments and administration. The course is conducted by the San Diego based Centre for Organizational Effectiveness. Two of the three sessions are presented during this fiscal year. I recommend that Katy Richardson be approved to attend this course. The course description is included for the Board's information.

2. The CALAPRS Course in Retirement Plan Administration is a multi-session course designed to inform staff members of retirement systems about the operations of California public pension plans. The initial overview course will be held in this fiscal year with the two remaining courses held during the second half of this calendar year. I recommend that Chris O'Ferrall be approved to attend this course.

I think it is important to note the importance of training in the development and retention of professional staff and the benefits redeemed by an organization, especially one the size of MCERA, from the networking with the staffs of other public pension systems.

The training of staff is consistent with the mission and core values of MCERA and a number of strategic plan objectives, including one to "pursue staff development, cross-training, and succession planning."

Training Programs

The following organizations provide training and education courses for trustees and staffs of public pension funds in California. MCERA is a member of many of these organizations through an annual membership fee which give MCERA access to all the benefits of the organization that includes educational publications and access to the membership network. The training and education courses offered to trustees and staff at provided for an additional minimal tuition fee.

CALAPRS: The California Association of Public Retirement Systems is a state-wide association of public pension funds, including the 1937 Act funds; independent cities and counties; the state teacher's retirement system (CalSTRS) and the state public employees retirement system (CalPERS).

CALAPRS sponsors educational forums for sharing information and exchanging ideas among trustees and staff of California public retirement systems to enhance their ability to administer public pension plan benefits and manage investments consistent with their fiduciary responsibility.

CALAPRS carries out its mission through an annual conference called the General Assembly, round table meetings for discussion of topics of interest, the annual Principles of Pension Management course for Trustees, the Overview, Intermediate, and Advanced Staff Training, Disability Staff Training and the Management/Supervisory Academy.

The Roundtable groups are: Trustees, Administrators, Benefits staff, Accountants, Administrative Assistants, Attorneys, Investment Officers, Communications, and Information Technology staff of the member public retirement systems in California.

SACRS: The State Association of County Retirement Systems is a state-wide association of the twenty county public pension retirement systems that operate under the 1937 Act. The specific and primary purposes of SACRS are to provide forums for disseminating knowledge of and developing expertise in the operation of county retirement systems existing under the County Employees Retirement Law of 1937 and to foster and take an active role in the legislative process as it affects county retirement systems.

NCPERS: The National Conference on Public Employee Retirement Systems is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada. It is a unique non-profit network of trustees, administrators, public officials and investment professionals who collectively manage nearly \$3 trillion in pension assets held in trust for approximately 21 million public employees and retirees — including firefighters, law enforcement officers, teachers, and other public servants.

GFOA: The Government Finance Officers Association mission is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

IFEPB: The International Foundation of Employee Benefit Plans is a nonprofit organization, dedicated to being a leading objective and independent global source of employee benefits, compensation and financial literacy education and information.

The Foundation delivers education, information and research, and networking opportunities to thousands of benefits and compensation professionals who have come to rely on it for objective, accurate, and timely information.

NIRS: The National Institute on Retirement Security is a non-profit research and education organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole.

raw

Attachments



2013 MANAGEMENT/LEADERSHIP ACADEMY

A THREE-MODULE COURSE: APRIL 15-16, JUNE 3-5, AND JULY 22-24, 2013
to be held at the
LOS ANGELES MARRIOTT BURBANK AIRPORT, BURBANK, CA

THE NEED: Public retirement systems offer management challenges far different than those found in either the private sector or other government settings. But training to fill this unique need is not readily available.

THE SOLUTION: The CALAPRS Board of Directors is pleased to offer the Management/Leadership Academy again in 2013. The Academy is for mid-level managers in larger systems and supervisors in smaller systems. The ideal candidate is a retirement system subordinate manager or supervisor with a couple of years of experience leading a team in benefits, accounting, investments or administrative aspects of your public retirement system.

The CALAPRS Board of Directors has contracted with **The Centre for Organization Effectiveness** based in San Diego to present the course. The Centre has the best approach and training resources to give Academy students outstanding training and exposure to enterprise management, problem solving, leadership and a feedback component in the retirement system context. Previous students have given the Academy **rave reviews**. Here's a typical comment: *"The information presented was top level, but to be able to discuss it with the other retirement system students made the Academy a truly wonderful and beneficial experience. I know it will make me a better retirement manager for years to come."* Gladys Smith, Benefits Manager, San Mateo County Employees' Retirement Association.

THE ACADEMY IS ORGANIZED INTO THREE MODULES:

MODULE ONE	MODULE TWO		MODULE THREE	
APRIL 15-16	JUNE 3, 4 & 5		JULY 22, 23 & 24	
BEING AN EFFECTIVE MANAGER <ul style="list-style-type: none"> ➤ Changing Role/Expectations ➤ Emerging HR Trends in Industry ➤ Top 10 Success Tips for Managers 	360° SURVEY FEEDBACK <ul style="list-style-type: none"> ➤ Leadership Competencies ➤ Review 360° Survey Reports ➤ Prepare Individual Development Plans ➤ Coaching Activities 	INTER-GENERATIONAL WORKFORCE ISSUES <ul style="list-style-type: none"> ➤ Generational Differences ➤ Defining Characteristics ➤ Managing & Recruiting 	DECISION MAKING & INVOLVEMENT <ul style="list-style-type: none"> ➤ Types of Decisions ➤ A Decision Making Model ➤ Levels of Involvement ➤ Real Cases and Decisions 	PERFORMANCE MANAGEMENT <ul style="list-style-type: none"> ➤ Model of Performance Management ➤ Measuring Performance Against Goals/Standards ➤ Giving Performance Feedback ➤ Dealing with Poor Performers
CUSTOMER SERVICE FOCUS <ul style="list-style-type: none"> ➤ Who Are Our Customers? ➤ Clarifying Expectations ➤ Customer Service Model ➤ Feedback From Customers ➤ Service & Satisfaction Metrics 	EFFECTIVE INFLUENCE SKILLS <ul style="list-style-type: none"> ➤ Power Bases ➤ Exchange Theory ➤ Generational Differences ➤ Understanding Stakeholders ➤ Practical Tips 	ETHICAL DILEMMAS <ul style="list-style-type: none"> ➤ What are Ethical Dilemmas? ➤ Case Examples ➤ 7-Step Model to Resolve 	STRATEGIC THINKING & PLANNING <ul style="list-style-type: none"> ➤ What is Strategic Thinking? ➤ Strategic Planning Model ➤ SWOT Mock Analysis ➤ Balanced Scorecard ➤ Business Metrics 	MANAGING CHANGE <ul style="list-style-type: none"> ➤ Manager's Role in Change ➤ Change Model ➤ Change vs. Transition ➤ Mindsets Overcoming Resistance
				GRADUATION



WHERE AND WHEN:

Each of the Academy's three Modules will be held at the Marriott Burbank Airport.

- **MODULE ONE** starts at 10 AM on Monday, April 15th.
 1. On April 15th, lunch will be provided and a working reception will follow the formal instruction; students will be on their own for dinner.
 2. A buffet breakfast and lunch will be provided on Tuesday, April 16th.
 3. The Module ends after lunch (1 PM) on April 16th.
- **MODULE TWO** starts at 10 AM on Monday, June 3rd.
 1. On June 3rd, lunch will be provided and a working reception will follow the formal instruction; students will be on their own for dinner.
 2. On June 4th and 5th, buffet breakfast and lunch will be provided; on June 4th a working reception will follow the formal instruction; students will be on their own for dinner.
 3. The Module ends after lunch (1PM) on June 5th.
- **MODULE THREE** starts at 10 AM on Monday, July 22nd.
 1. On July 22nd, lunch will be provided and a working reception will follow the formal instruction; students will be on their own for dinner.
 2. On July 23rd and 24th, buffet breakfast and lunch will be provided; on July 23rd a working reception will follow the formal instruction; students will be on their own for dinner.
 3. The Module ends with Graduation and lunch (1PM) on July 24th.

EACH STUDENT AND HIS/HER ADMINISTRATOR MUST COMMIT TO ATTENDANCE BY THE STUDENT AT ALL THREE MODULES. Since the Academy Modules are cumulative, persons may not be substituted after the start of the first Module.

HOTEL & TRAVEL ARRANGEMENTS:

It is the System's responsibility to assure that students attend each Module and make appropriate hotel and travel arrangements for Academy student(s) at the system's expense. CALAPRS has arranged for a discounted room rate at the Marriott Burbank Airport of \$129/night and encourages students to stay in the hotel for the following nights: April 15, June 3 & 4, and July 22 & 23. Instructions to obtain the discounted room rate will be distributed with the student acceptance letters between March 11-15, 2013.

Los Angeles Marriott Burbank Airport – 2500 Hollywood Way, Burbank, CA 91505
Hotel: (818) 843-6000 - www.marriottburbankairport.com

COST:

Please consider the Application your invoice. A separate invoice will not be sent. The total cost for each Academy Student is \$2,500 and must be paid by April 5, 2013. The \$2,500 covers the meals outlined above and training resources for all three Modules. Tuition is non-refundable after the start of the first session.

HOW TO PARTICIPATE:

The Retirement System Administrator/CEO/Executive Director nominates the subordinate managers (supervisors in smaller systems) for this unique training experience on the attached Application Form. The Academy will be limited to 36 students. Systems may nominate up to six students; please rank the order in which they should be accepted.

THE ACADEMY COMMITTEE:

Chair: David Bailey, San Mateo County Employees Retirement Association
Anne Holdren, Kern County Employees' Retirement Association
Marilyn Leedom, Contra Costa County Employees' Retirement Association
Logistics: Kerry Parker and Alison Corley, CALAPRS

Richard A. White, Jr.
Retirement Administrator



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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *rw*
Re: MCERA Strategic Plan

Background:

The Mendocino County Employees' Retirement Association (MCERA) met on October 17 and 18, 2012 for the first formal strategic planning session undertaken by the Board of Retirement. The session was facilitated by Nancy Williams and Russ Charvonia, consultants from the Fiduciary Practice at the consulting firm Hewitt Ennis Knupp (HEK).

The Board discussed the mission statement, core values, goals and objectives in meetings subsequent to the strategic planning session which ultimately resulted in the Board of Retirement taking action to formally approve the strategic plan on January 16, 2013.

The approval of the strategic plan set in motion a series of events necessary to implement the goals and objectives in the plan which includes the measurement of the progress of the plan and revision of the plan, as necessary. These steps are detailed below and will be tracked in the upcoming months.

TARGET DATE	ACTION ITEM	REPORTABLE ACTION
February 20, 2013	Board reviews the proposed start and completion dates to each of the Objectives	
March 20, 2013	Board reviews the timelines and discusses the budget requirements for the Objectives.	
To be determined	The Retirement Administrator collaborates with the staff and creates action plans for Objectives that are to start in 2013.	
To be determined	The Board and staff reach agreement on the "definition of success" for the Objectives that are to start in 2013.	
October 16, 2013	The Board receives a progress report on the progress of the strategic plan implementation.	
October, 2014	The Board updates the strategic plan.	

Action Item: Direction to staff based upon your review of the timeline plan for the implementation of the objectives.

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Attachment

Strategic Plan Goals and Objectives



Task Name	Q3 FY 2013	Q4 FY 2013	Q1 FY 2014	Q2 FY 2014	Q3 FY 2014	Q4 FY 2014	Q1 FY 2015	Q2 FY 2015	Q3 FY 2015										
Template Tutorial & Tips	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May		
<p>Goal 1: Enhance Communications and Customer Service</p> <p>Objective A: Develop a proactive communication strategy</p> <p>Objective B: Increase interaction and information sharing with the plan sponsors</p> <p>Objective C: Improve the annual member statements</p> <p>Objective D: Invite greater participation by the employee groups</p> <p>Objective E: Improve the content and usability of the website</p> <p>Objective F: Assess the costs and benefits of creating a periodic email newsletter for members and retirees</p> <p>Objective G: Create an external Internet Portal</p> <p>Objective H: Provide members with the education to equip them for retirement</p> <p>Goal 2: Increase the effectiveness of internal operations</p> <p>Objective A: Prepare for the implementation of PEPPRA</p> <p>Objective B: Access technological needs for all key functions and revisit the previously prepared IT roadmap</p> <p>Objective C: Evaluate various service providers and implement an automated pension administration system</p> <p>Objective D: Undertake the process of imaging vital documents</p> <p>Objective E: Complete the IRS Voluntary Correction Program</p> <p>Objective F: Re-evaluate the organizational structure, the assignment of responsibilities, and job descriptions</p> <p>Objective G: Access the adequacy of internal controls</p> <p>Objective H: Pursue staff development, cross-training, and succession planning</p> <p>Objective I: Explore options for disaster preparedness</p> <p>Objective J: Discuss the feasibility of issuing debt cards or requiring electronic funds transfers (ETFs) for benefit payments</p> <p>Objective K: Decide the most cost-effective way of handling accounting functions</p> <p>Objective L: Evaluate ways to streamline the procurement process and expense reimbursement</p> <p>Objective M: Investigate means of achieving economies of scale to reduce costs</p>																			

Task Name	Q3 FY 2013	Q4 FY 2013	Q1 FY 2014	Q2 FY 2014	Q3 FY 2014	Q4 FY 2014	Q1 FY 2015	Q2 FY 2015	Q3 FY 2015						
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Objective N: Evaluate long range requirements for office space															
Goal 3: Establish optimal board governance															
Objective A: Review existing charters and policies to identify gaps															
Objective B: Refine the disability determination policy and processes															
Objective C: Prepare a board member position description outlining expectations															
Objective D: Discuss ways to augment limited staff resources															
Objective E: Establish ways to report and measure progress of strategic plan goals and objectives															
Objective F: Establish annual fiduciary training tailored for the Association															
Goal 4: Explore ways to ensure prudent management of contributions and investment of retirement fund assets															
Objective A: Continue to explore ways to increase investment returns while managing overall portfolio risk to an acceptable level															
Objective B: Evaluate the risks and returns of shifting the degree of active and passive management of investments															
Objective C: Undertake and asset/liability modeling (ALM), analyze the best case, worst case, and most likely case scenarios and trends															
Objective D: Review the portfolio's asset allocation following the ALM and make adjustments															
Objective E: Re-evaluate the existing funding method and the assumptions															
Objective F: Provide information to plan sponsors on PEPPA															

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *RAW*
Subject: Audit and Budget Committee

Introduction:

The Audit and Budget Committee met on January 28, 2013 to review the draft audit report and discuss a number of other topics which are being considered and acted upon by the Board at today's meeting. The following are the topics covered by the Audit and Budget Committee:

- A. **Draft Audit Report.** This item is being considered under a separate Board agenda item at today's meeting. The Audit and Budget Committee approved the draft audit and will discuss their thoughts during that specific item.
- B. **Discussion and Direction to staff regarding the timing and preparation of reports.**

This item was a discussion regarding a suggested change to our current process of compiling information for our valuation and audit. After discussion, the Committee agreed that this issue should be brought to the full Board for discussion in February.

Background: The Board is aware that MCERA is required to complete an Actuarial Valuation and Audit Report on an annual fiscal year basis and that these reports are expected to be completed by the end of December. MCERA has experienced challenges meeting these deadlines for a variety of reasons, so it was thought to examine the process and see if changes might be warranted.

In consultation with our professional service providers (The Segal Company and Gallina), it was suggested that the Committee consider a modification to the current process. Essentially, the completion of the Actuarial Valuation and the Financial Statements (Audit) requires information from both service providers at different times throughout the development of these reports which actually builds upon each successive step. In other words, one service provider prepares a report which is sent to the other service provider which incorporates changes into the initial report which is sent back to the other service provider which incorporates those changes and so on. The process to develop these two reports is co-dependent upon each other with the reports passed between both the actuary and

the auditor to ensure accuracy and completeness. the review by the Audit and Budget Committee also pushes this cycle further along.

A suggested approach provided by the professional service providers is to 'decouple' the actuarial valuation and the financial statements.

In this approach, the auditor will use the latest Board approved actuarial valuation from the previous period for the completion of the current fiscal year financial statements.

The approach ensures that the information from the actuarial valuation used in the completion of the financial statements has been fully vetted by the Audit and Budget Committee and approved by the Board of Retirement before the information is used in the preparation of the financial reports.

This approach would likely put the completion of the financial reports on a different and more efficient timeline.

The benefits of this 'decoupling' approach include:

- The timeliness of the reporting of the financial statements is very important and this revised process will could benefit MCERA in this regards.
- The different process would assist Gallina in the preparation of the financial statements. It should allow for a quicker turnaround time and make the statements available for the staff and committee at an earlier time.
- This would allow the Audit and Budget Committee to review a final draft report in October/November time frame with the Board of Retirement having the financial statements for approval in November/December.
- Ensures the use of a Board approved Actuarial Valuation Report in the preparation of the financial statements.

The down side to this suggested approach is that the use of the prior year actuarial valuation means that in one fiscal year, the financial statements would be completed using the actuarial valuation report from the previous fiscal year which was also used for the previous financial reports. This would only happen once at the transition to this revised process. The aspect would be fully explained and noted in the financial report.

The cost associated with the proposed change was discussed by the Committee and both Gallina and The Segal Company stated that there should not be an additional cost with this approach. This approach might even result in a cost savings.

Recommended action: Approve the change in the preparation of the financial statements to permit the use of the previous fiscal year Actuarial Valuation Report.

C. Audit and Budget Committee Charter.

This item was a discussion of adding an Audit and Budget Committee Charter to the MCERA governance documents. The Committee recommendation was to approve the draft Audit and Budget Committee Charter and present to the Board on February 20, 2013 for approval and adoption.

Notable points about this Charter:

- Becomes a standing committee of MCERA with noticed meetings, posted agenda and approved minutes.
- Committee has four members to increase representation and provides for a Committee Chair.
- Oversight of the preparation of the audited financial statements and associated reports.
- Input to the preparation of the annual fiscal year administrative budget.

Recommended action: Approve the Audit and Budget Committee Charter.

D. Budget Adoption Policy

This item was a discussion of adding a Budget Adoption Policy to the MCERA governance documents. The Committee recommendation was to approve the draft and present to the Board on February 20, 2013 for approval and adoption.

Notable points about this policy:

- Formalized roles of staff and Board.
- Establishes timeline for adoption of the annual budget.
- Links budget process with the Strategic Plan.

Recommended action: Approve the Budget Adoption Policy.

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Attachments

Mendocino County Board of Retirement
Budget and Audit Committee Meeting
January 28, 2013
11:00 a.m.

Roll Call (11:00 a.m.)

Public Comment

Members of the public are welcome to address the board on subjects within the jurisdiction of the Board of Retirement regarding items both on and off the agenda. The board is prohibited by law from taking action on matters not on the agenda, but may ask questions to clarify the speaker's comment and/or briefly answer questions. The board limits testimony on matters not on the agenda to 5 minutes per person and not more than 10 minutes for a particular subject at the discretion of the Chair of the Board. To best facilitate public expression please complete the speaker form available at the entrance to the boardroom and present to the Clerk to the Board. If you wish to submit written comments please provide 13 copies to the Clerk to the Board prior to the start of the meeting. Public speakers are reminded to announce their names before they address the board.

- 1) Discussion and Approval of the draft June 30, 2012 Audit Report by Gallina LLP
- 2) Discussion and Direction to staff regarding the Comprehensive Annual Financial Report (CAFR) and Audit Process
- 3) Discussion and Approval of the draft Budget and Audit Committee Charter
- 4) Discussion and Approval of the draft Budget Adoption Policy
- 5) Schedule the next Budget and Audit Committee meeting

Meeting Adjourned (Approximate Time 12:00 noon)

(Pursuant to Government Code Section 54954, this agenda was posted 72 hours prior to the meeting.)

INTRODUCTION

1. The Board of Retirement has established a Budget and Audit Committee to assist it in overseeing the Audit and Budget functions within MCERA.
2. The Budget and Audit Committee will make recommendations on matters pertaining to the budget and audit of MCERA to the Board of Retirement
3. The Board Chair will appoint members of the Budget and Audit Committee and designate one member to serve as the committee chair.
4. The Budget and Audit Committee shall be comprised of four members of the Board of Retirement.

DUTIES AND RESPONSIBILITIES

1. The Budget and Audit Committee will, from time to time, as determined to be in the best interest of MCERA:
 - a. Examine and approve the objectives and scope of annual financial Audit and Budgets, including the audit plans of the external financial auditor, the duties and responsibilities of the external financial auditor, and the timing and engagement fee of the annual financial audit;
 - b. Meet with the external financial auditor to review and discuss the annual financial statements;
 - c. Review the findings of the external financial auditor and review of Management Letter, and any response thereto;
 - d. Recommend the approved annual financial statements to the Board of Retirement for approval;
 - e. Meet at least annually with the Retirement Administrator to discuss the effectiveness of the internal financial and operational control policies;
 - f. Review the engagement of the external financial auditor at least every three years and make recommendations to the Board as to the appointment of the external financial auditor;
 - g. Review the findings or comments of any regulatory agencies concerning financial statements or other information of MCERA;
 - h. Review and approve the proposed fiscal year budget prior to presentation to the Board of Retirement.

MONITORING AND REPORTING

1. The Budget and Audit Committee will:
 - a. Review, at least every three years, the performance and independence of the external financial auditor, including the impact of any non-audit services performed for MCERA by the auditors, or any affiliate thereof, on such independence;
 - b. Review any significant changes in accounting practices or policies that may have an impact on MCERA or the Fund;
 - c. Report regularly to the Board of Retirement on its activities.
2. The Committee will perform any other duties that are assigned to it by the Chair of the Board.

CHARTER HISTORY

1. This Charter was adopted by the Board of Retirement on February 20, 2013.

BACKGROUND AND PURPOSE

1. The Board of Retirement annually adopts a budget covering the expenses of administering the retirement system. The administration expenses incurred in any year will be charged against the earnings of the retirement fund and will not exceed twenty-one hundredths of one percent (0.21%) of MCERA's actuarial accrued liability or \$2 Million, whichever is greater
2. The purpose of the Budget Adoption Policy is to establish the process by which the MCERA annual budget is adopted by the Board of Retirement.

ROLES

1. The preparation and presentation of the budget is the responsibility of the Retirement Administrator.
2. The recommendation for the adoption of the annual budget is the responsibility of the Budget and Audit Committee.
3. The adoption of an annual budget is the responsibility of the Board of Retirement.

GUIDELINES

General Provisions

1. The Retirement Administrator will present to the Board of Retirement a proposed budget for the next fiscal year that supports the initiatives set out in the Strategic Plan. The Budget will be presented for adoption during the month of May.
2. The format of the proposed budget will organize expenditures within MCERA into the following categories:
 - a. Personnel;
 - b. Administrative;
 - c. Disability;
 - d. Building Expenses (625 Kings Court);
 - e. Technology;
 - f. Investments;
 - g. Such other functions that may be adopted by MCERA in the future.

3. The Retirement Administrator is granted the authority to determine which purchases not exceeding \$5,000.00 are to be treated as capital expenses and which are to be expensed in the year of purchase.
4. The Retirement Administrator is granted authority to shift funds within a category to accomplish the goals set forth in the Strategic Plan. Funds may not be moved from one category to another without approval of the Board of Retirement.
5. The Retirement Administrator may request that the Board amend the budget for the current fiscal year by presenting reasons for the budget amendment, its expected impact, and the cost of the amendment for the remainder of the budget year.

POLICY REVIEW

1. The Board shall review this policy at least every three years to ensure that it remains relevant and appropriate.

POLICY HISTORY

1. This policy was adopted by the Board of Retirement on February 20, 2013.

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MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
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Date: February 12, 2013
To: Board of Retirement
From: Judy Zeller, Retirement Specialist II
Subject: Membership information for past 5 years

At the January 16, 2013 meeting, there was a request for additional information regarding system membership over the last 5 years. I have attached page 1 of the June 30, 2012 Actuarial Valuation and page 65 of the June 30 2011 CAFR for your review. Both pages include information regarding our membership over a number of years. I hope you find this information helpful.

A handwritten signature in cursive script, appearing to be "JZ".

SECTION 2: Valuation Results for the Mendocino County Employees' Retirement Association

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, vested terminated members, retired members and beneficiaries.

This section presents a summary of significant statistical data on these member groups. More detailed information for this valuation year and the preceding valuation can be found in Section 3, Exhibits A, B, and C.

A historical perspective of how the member population has changed over the past seven valuations can be seen in this chart.

CHART 1
Member Population: 2006 – 2012⁽¹⁾

Year Ended June 30	Active Members	Vested Terminated Members⁽²⁾	Retired Members and Beneficiaries	Ratio of Non-Actives to Actives
2006	1,312	445	853	0.99
2007	1,395	407	907	0.94
2008	1,410	411	962	0.97
2009	1,369	412	1,008	1.04
2010	1,254	395	1,083	1.18
2011	1,129	389	1,129	1.34
2012	1,069	356	1,217	1.47

⁽¹⁾ Information prior to 2011 has been extracted from the previous actuary's past valuation reports.

⁽²⁾ Includes pending withdrawals and pending disabilities prior to 2011.

**SCHEDULE OF PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS
As of June 30**

	Total Employees	County of Mendocino	Russian River Cemetery District	Superior Court
Year 2011				
Number of Covered Employees	1,129	1,065	4	60
Percentage to Total System	100%	94.33%	.35%	5.32%
Year 2010				
Number of Covered Employees	1,254	1,186	5	63
Percentage to Total System	100%	94.58%	.40%	5.02%
Year 2009				
Number of Covered Employees	1,369	1,294	5	70
Percentage to Total System	100%	94.52%	.37%	5.11%
Year 2008				
Number of Covered Employees	1,410	1,335	5	70
Percentage to Total System	100%	94.68%	.36%	4.96%
Year 2007				
Number of Covered Employees	1,395	1,314	5	76
Percentage to Total System	100%	94.19%	.36%	5.45%
Year 2006				
Number of Covered Employees	1,312	1,225	5	82
Percentage to Total System	100%	93.37%	.38%	6.25%
Year 2005				
Number of Covered Employees	1,333	1,258	6	69
Percentage to Total System	100%	94.37%	.45%	5.18%
Year 2004				
Number of Covered Employees	1,400	1,338	6	56
Percentage to Total System	100%	95.57%	.43%	4.00%
Year 2003				
Number of Covered Employees	1,472	1,418	5	49
Percentage to Total System	100%	96.33%	.34%	3.33%
Year 2002				
Number of Covered Employees	1,482	1,409	5	68
Percentage to Total System	100%	95.07%	.34%	4.59%

Source of data: MCERA systems.

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Date: February 20, 2013
To: Board of Retirement
From: Richard White, Retirement Administrator *RW*
Subject: Administrator Report

I attended the following meetings or events since our last Board meeting:

- I presented an update of your meeting to the Board of Supervisors at their meeting on January 22, 2013.
- I met with Caryn Downing (CEO) and April Allen (Auditor) of the Superior Court on January 22, 2013.
- I attended the CalAPRS Administrative Roundtable session in San Jose on January 25, 2013.
- I attended the Callan Investment Institute in San Francisco on January 28-30, 2013.
- I attended the County Department Head meeting on February 6, 2013.
- I attended the CalAPRS Investment Officer Roundtable session in San Jose on February 8, 2013.
- I met with Leslie Jones, Office Manager, Russian River Cemetery District on February 12, 2013.

Legislative Update:

The following update was provided to MCERA by Julie Wyne, OCERS Assistant CEO, External & Legal Operations.

The Legislature reconvened on January 7th to commence the first year of this 2013/14 legislative session. Bills have to be introduced by February 22nd. There are four bills related to PEPRA clean-up and I expect these bills will be amended many times over before this session is through.

The first of these efforts, SB 13 (Negrete-McLeod), was introduced on December 3, 2012, with an urgency request to address some PEPRA related issues. In addition to some minor technical changes, the bill addresses the following:

- Clarifies that an employer is not precluded from offering a defined contribution plan on or after January 1, 2013, if the employer did not offer one prior to that date.

- Clarifies that a new member may be required to pay more than 50% of normal cost if the greater contribution rate has been agreed to through the collective bargaining process.
- Removes the safety member industrial disability benefit from the PEPRA section 7522.66 (thereby ensuring it is not applied to system members other than PERS).
- Clarifies the PERS industrial disability section to reference an annuity from a member's accumulated additional contributions.

The SACRS' Legislative Committee members have been advised that the bill is also going to include some language clarifying that pensionable compensation under PEPRA means not only base pay, but regularly recurring pay items that are shift/skills based paid to all other members of an employee's grade or class (which is how MCERA interprets this section).

The second PEPRA clean-up bill is SB 24 (Walters), also introduced December 3, 2012. This bill removes the requirement that the Legislature approve a new defined benefit plan offered on or after January 1, 2013 and authorizes a local agency public employer or public retirement system to offer a defined benefit formula with a lower age factor at normal retirement age and a lower normal cost than the formulas currently required under PEPRA, for purposes of addressing a fiscal necessity.

The third PEPRA clean-up bill is SB 54 (Hancock), introduced December 21, 2012, with an urgency clause. This is an Alameda County specific bill, which means it will not apply to MCERA. The bill authorizes the Alameda County Board of Supervisors to provide a service retirement allowance in accordance with a 2% at 65 benefit formula, for all general members hired after approval of the resolution, and adds the benefit formula to the '37 Act. Since this plan has a lower age factor at 65 than the PEPRA general member formula it should also have a lower normal cost, which is a requirement for benefit formulas to withstand the PEPRA test and remain in place after January 1, 2013. It would appear this bill is in response to action that has already been taken by Alameda County.

The fourth PEPRA clean-up bill is AB 160 (Alejo), and it exempts from PEPRA certain multiemployer plans authorized under federal law and retirement plans for public employees whose collective bargaining rights are protected by a specified provision of federal law. This bill is in response to complaints filed with the Department of Labor claiming that PEPRA violates federal collective bargaining law by limiting the ability to negotiate traditional subjects of collective bargaining, like benefit formulas. If the Department of Labor determines that collective bargaining rights are not being protected under the Federal Transit Act, it can withhold certification of mass transit projects, which would jeopardize California's receipt of federal grant funds tied to those projects, and in turn impact the transit agencies.

PEPRA

The County disbanded the ad hoc PEPRA working group as most of the objectives of the group have been completed and the need for regular meetings has diminished. The group agreed to meet again should the need arise with future legislation or unanticipated issues. One result of the disbanding of the group is that MCERA has been asked to assume responsibility for the maintenance of the PEPRA legislation website which we will be transitioning in the near future.

In addition to monitoring the legislative action, as described above, there are a couple of items that require Board action which will be presented in the upcoming meetings. The procedure to 'audit' final compensation to ensure against 'pension spiking' is one that the Board will discuss in the future.

MCERA staff attended recent CalAPRS roundtable sessions recently where the PEPRRA legislation was discussed and we found that the implementation of the pension reform legislation taking place in our peer systems is consistent with what we are doing or considering. We also learned that lawsuits have been filed over aspects of the pension reform legislation and we will be monitoring them as they progress through the legal system.

Tax Forms

MCERA staff worked diligently to produce and distribute the 1099s by the end of January, as required by law, in cooperation with County IT. MCERA sends 1099-Misc forms to our vendors and 1099-R forms to our retirees and those who have withdrawn their funds. As a point of information for the Board, the current process to generate the forms is a cumbersome combination of manual labor and multiple automated programs that is relevant for the Board to know about in the future when we discuss our IT roadmap and staffing issues.

Public Record Request

MCERA received and complied with a request for investment returns from 1996 to present from The Bay Citizen, a media group.

Scheduled Education Sessions

I will be attending the CalAPRS General Assembly meeting during March 3-5, 2013 in San Francisco.

Determination Letter/Voluntary Compliance Program Filings

Our tax counsel (Hanson Bridgett) sent us a note that the IRS has communicated with them about the filings with the 1937 Act systems and they expect the IRS to begin reviewing the filings in the very near future.

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